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SUBJECT: SCENESETTER FOR SENATOR HAGEL'S VISIT TO MOSCOW

¶1. (SBU) Summary: Russia's season for political surprises has ended. The country now looks set to continue Putin's domestic and foreign policies with the expected shift to Medvedev as President and Putin as Prime Minister this spring. The expected Putin-Medvedev team appears set to ensure continuity of policy and continued economic stability.

Despite our frustrations with the course that Putin has charted -- notably, the overcentralization of political power and foreign policy toward some of Russia's neighbors, Russia will matter enormously for American interests for years to come. Russia is the world's largest energy producer, remains the only nuclear power comparable to the U.S., and is a permanent member of the UN Security Council. Against this backdrop, the U.S. remains committed to deepening cooperation with Russia in areas of strategic concern, while dealing forthrightly with our differences. Your visit is a chance for some frank dialogue on a full range of bilateral issues in this election year for both countries. End summary.

Political Overview

¶2. (SBU) Your visit occurs as Russia's anticlimactic presidential election campaign unfolds. The virtual certainty that Putin protege First Deputy Prime Minister Dmitriy Medvedev will win in the first round on March 2, then name Putin as his Prime Minister, has reduced speculation here to how Putin and Medvedev will share power in their new administration. Two of the four parliamentary parties --the Communists and the Liberal Democrats-- have nominated their traditional candidates and independent contenders are, with varying degrees of success, attempting to get their names on the ballot, but their presence will do little to sidetrack Medvedev's march to the presidency.

¶3. (SBU) The presidential contest was preceded by a Duma campaign whose December 2 election produced a constitutional majority for the pro-Kremlin United Russia party. With Putin's decision to head the party list, there was little doubt that United Russia would win the lion's share of seats. That said, the use of administrative resources to support United Russia and the unequal playing field for the opposition were cited by international observers, who judged the campaign to be neither free nor fair.

¶4. (SBU) The Duma election was preceded over the last two years by changes to the laws on elections, extremism, and NGOs that effectively made it more difficult for voices independent of the Kremlin to be heard. Compounding the effect of the changes to the laws were the unsuccessful efforts by opposition parties to appeal to an electorate that is content with unprecedented improvements in its standard of living. In pursuit of continued popularity, the Kremlin has both fed and played on grassroots anti-western sentiment which remains strong here.

Economic Overview

15. (SBU) Russia is enjoying an economic boom fueled by high oil and gas prices and rising consumer spending. The World Bank recently ranked Russia's economy eighth in the world in terms of GDP. Russia is the world's largest energy producer and has the world's largest gas reserves. Eight years of strong economic growth have created an expanding consumer or middle class and increased individual economic freedom. However, there is an uneven distribution of benefits and widespread poverty in the Russian Far East and the North Caucasus. Other concerns include pervasive corruption, increasing state interference in the economy, and health and demographic problems.

Bilateral Agenda: Areas of Cooperation

16. (SBU) The Russia of the 1990s -- flat on its back economically and preoccupied with internal woes -- is gone. Armed with hydrocarbons, cash, strong domestic support, nukes, and a UN Security Council veto, Russia is reasserting itself on the world stage. 2007 marked the 200th anniversary of bilateral diplomatic ties, but last year was particularly challenging for U.S.-Russia relations, and this year promises more of the same. Nonetheless, there is no alternative to pursuing cooperation in areas of strategic importance to the United States.

17. (SBU) Halting the spread of weapons of mass destruction is a key component of the U.S.-Russia strategic security dialogue. We are making significant progress with our Russian counterparts on Nunn-Lugar programs to enhance nuclear security at Russian facilities, and are on track to

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meet the goals set by the President at the Bratislava Summit with Putin. Russia's role in the Six Party Talks over the denuclearization of North Korea has generally been constructive (if limited). Russia joined the U.S. in co-founding the Global Initiative to Combat Nuclear Terrorism in 2006, which now includes 65 participants and seeks to interdict unauthorized transfers of nuclear weapons and technology. Rosatom Director Kiriienko and Energy Secretary Bodman signed in November a joint statement outlining a plan for Russia's program to dispose of 34 metric tons of surplus plutonium from its weapons program.

18. (SBU) Regarding Iran's nuclear weapons aspirations, Russia and the United States share the same strategic goals, but differ over tactics. Russia agrees that Iran's possession of a nuclear weapon would be dangerous and is working with us on a third UN Security Council resolution, but continues to urge patience, direct engagement with Iran, and collective action. Russia contends that its recent delivery of fuel to Iran's Bushehr nuclear plant precludes the need for Iran to continue its enrichment program. Russia has played a helpful role in advancing the Middle East Peace Process through the Quartet, and plans to host a post-Annapolis conference in Moscow later this year.

19. (SBU) The U.S. and Russia have initialed a text for a 123 (Peaceful Uses of Nuclear Energy) Agreement which, if approved, will allow for an expansion of civilian nuclear cooperation. Russia has also signed on to the Global Nuclear Energy Partnership, a multilateral effort spearheaded by the U.S. to expand the peaceful uses of nuclear energy worldwide in a secure and sustainable manner.

110. (SBU) The U.S. actively supports Russia's bid to join the World Trade Organization. Russia's WTO accession negotiations are in the endgame. It is in our interests to have Russia integrated into a rules-based, global economic system. The eventual revocation of Jackson-Vanik will be needed to ensure that U.S. firms can compete fully in the Russian market after Russia's WTO accession.

Bilateral Agenda: Differences

¶11. (SBU) Our differences with Russia are prominent and public. Despite U.S.-proposed confidence building and transparency measures, Russia continues to view U.S. missile defense plans in Central Europe as threatening. Foreign Minister Lavrov has repeatedly warned that Kosovo's unilateral independence would set a dangerous precedent for the resolution of other separatist conflicts, including in Georgia and Moldova. Russian suspended its participation in the Treaty on Conventional Forces in Europe on December 12, but continues to engage with the U.S. to try to bridge the current impasse.

¶12. (SBU) The U.S. has repeatedly raised concerns about Russia's conventional weapons sales -- a \$7 billion per year industry -- to Iran, Syria, Venezuela, and others. Russia has voiced concerned about U.S. involvement in its backyard: calls for further NATO expansion, support for democratic movements and governments in the region, and encouragement for alternative energy supply routes from Central Asia and the Caucasus to Western Europe.

¶13. (SBU) Simply put, U.S. relations with Russia will likely continue to include both competition and cooperation. As difficult as the Russians can be at times, we cannot simply ignore or bypass Moscow, which matters too much on too many critical issues. We will need to speak forthrightly about our differences and to work creatively in the existing areas of common ground where our top strategic interests can be advanced. Your visit offers an opportunity for some frank dialogue on our challenging relationship with Russia in this election year for both countries.

RUSSELL